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International Economics

MEMORANDUM FOR: Henry S. Rowen
Chief, NIC

FROM: Maurice Ernst, NIO/ECON

SUBJECT: Reaction to Proposal to Overcome Reactive Analysis

1. I applaud Charlie Waterman's proposal to "overcome reactive analysis" (his memo of 14 October 1981). The NIC certainly should examine contingencies that could have a significant impact on US interests with the aim of calling policymaker attention to them or focusing research. But we should avoid creating a formal system of "alternative estimates." I would suggest that alternative views could be best dealt with on an ad hoc basis with clear cut objectives established for each project. Then, with an objective in mind, informal memos could be circulated to a limited, tailor-made readership with appropriate caveats. In this manner, the papers could act as warning mechanism, serve to generate discussion or serve to stimulate analysts' thinking. I think the important idea here is to stimulate thinking without having the process become too fixed.

2. Within the specific area of Economics, there appears to be little risk of major disasters. For example, given the current circumstances, US and world markets are not very exposed to potential disruptions in agricultural minerals or energy sectors.

3. Possible topics in the economic arena that might be worthwhile examining include:

1. Major Oil Price Decline
-- The impact of an increased oil supply in the (unlikely but not implausible) event that (a) the Iran-Iraq conflict ceases and (b)

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Iran reverts to rational oil policies. The subsequent increase in oil output could make it difficult for Saudi Arabia to support the OPEC price. This problem in turn would have important implications for relations among Middle Eastern countries as well as the world oil

market.

A Difficult Economic Transition For Mexico

-- The impact of a mishandling of an economic/political transition in Mexico, ~~A~~ slow down in the ^{growth} ~~growth~~ of oil ^{production} ~~production~~, and accelerating inflation will force a devaluation of the Peso and a ~~stabilization~~ ^{stabilization} programs. With the change in administration mishandling ~~of~~ these necessary but unpopular measures could have a disruptive effect on the Mexican domestic scene as well as on US-Mexican

relations.

Britain Pulls Out of the Common Market

-- The possibility of a British Labor-led government pulling out of the Common Market. With the current economic climate in Britain, Thatcher appears to be in a poor position to capture the 1984 election. Although a Labor party win would be sometime off, these current anti-EC platform raises the specter of an EC without Britain which hold certain implications for US interest.

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